

CITY OF OSAGE

INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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(Before January 2004)

Steven Cooper	Mayor	Jan 2004
Allan Smalley	Council Member	Jan 2004
Joel Voaklander	Council Member	Jan 2004
Brian Adams	Council Member	Jan 2004
Rick Bodensteiner	Council Member	Jan 2006
Kelvin Palsic	Council Member	Jan 2006
Harlan Bremer	Council Member	Jan 2006
Cathy Penney	City Clerk	Jan 2004
Bev Miller	City Treasurer	Jan 2004
Richard Gross	City Attorney	Jan 2004
Jerry Dunlay	Director of Public Works	Jan 2004
John Michels	Park Commissioner	Jan 2004
John LaCoste	Park Commissioner	Jan 2006
David Stanley	Park Commissioner	Jan 2008*
Tom Thome	Library Trustee	Jul 2005
Mary Ann Carmody	Library Trustee	Jul 2005
Herb Wright	Library Trustee	Jul 2006
Dr. Richard Boeke	Library Trustee	Jul 2006
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008

(After January 2004)

Steven Cooper	Mayor	Jan 2008
Kelvin Palsic	Council Member	Jan 2006
Harlan Bremer	Council Member	Jan 2006
Brian Adams	Council Member	Jan 2006
Allan Smalley	Council Member	Jan 2008
Joel Voaklander	Council Member	Jan 2008
Rick Bodensteiner	Council Member	Jan 2008
Cathy Penney	City Clerk	Jan 2006
Bev Miller	City Treasurer	Jan 2006
Richard Gross	City Attorney	Jan 2006
Jerry Dunlay	Director of Public Works	Jan 2006
John LaCoste	Park Commissioner	Jan 2006
Don Fox	Park Commissioner	Jan 2008
John Michels	Park Commissioner	Jan 2010
Tom Thome	Library Trustee	Jul 2005
Mary Ann Carmody	Library Trustee	Jul 2005
Herb Wright	Library Trustee	Jul 2006
Dr. Richard Boeke	Library Trustee	Jul 2006
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008

* David Stanley resigned in May, Don Fox appointed.

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's primary government financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the primary government financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the primary government financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall primary government financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As described in Note 18, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Legally separate entities are referred to as component units. In our opinion, the aforementioned primary government financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

However, the primary government financial statements, because they do not include the financial data of component units of the City of Osage, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Osage as of and for the year ended June 30, 2004, and its indebtedness at June 30, 2004, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated July 21, 2004 on our consideration of the City of Osage's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 25 through 27 are not required parts of the primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the aforementioned primary government financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those primary government financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
July 21, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osage provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 7.3%, or approximately \$237,000, from fiscal 2003 to fiscal 2004. Tax Increment Financing increased approximately \$90,000 and bond proceeds increased approximately \$358,000.
- Disbursements increased 30.4%, or approximately \$876,000, in fiscal 2004 from fiscal 2003. Public works, debt service, culture and recreation, and community and economic development disbursements increased approximately \$115,000, \$996,000, \$11,000, and \$321,000, respectively.
- The City's total cash basis net assets decreased 18%, or approximately \$763,000, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$265,000 and the assets of the business type activities decreased by approximately \$498,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of primary government financial statements and other information as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to primary government financial statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the primary government financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required primary government financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City.

The required primary government financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$2.317 million to \$2.052 million. The analysis that follows focuses on the cash balances for governmental activities. In future reports it will be comparative and more helpful.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$	289
Operating grants, contributions and restricted interest		380
General receipts:		
Property tax		1,329
Local option sales tax		208
Grants and contributions not restricted to specific purposes		26
Unrestricted investment earnings		35
Bond proceeds		982
Other general receipts		125
Transfers, net		117
Total receipts and transfers	\$	3,491
Disbursements:		
Public safety	\$	422
Public works		458
Culture and recreation		381
Community and economic development		452
General government		191
Debt service		1,447
Capital projects		405
Total disbursements	\$	3,756
Decrease in cash basis net assets	\$	(265)
Cash basis net assets beginning of year		2,317
Cash basis net assets end of year	\$	2,052

The City's total receipts for governmental activities increased by 7.3%, or \$237,000. The total cost of all programs and services increased by approximately \$876,000, or 30.4%, with no new programs added this year. The significant increase in receipts was primarily the result of bond proceeds received for refinancing purposes.

The cost of all governmental activities this year was \$3.756 million compared to \$2.880 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$3.087 million because some of the cost was paid by those who directly benefited from the programs (\$289,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$380,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$	347
Sewer		527
Solid waste		139
Capital grants, contributions and restricted interest		22
General receipts:		
Unrestricted interest on investments		6
Total receipts	\$	<u>1,041</u>
Disbursements and transfers:		
Water	\$	346
Sewer		956
Solid waste		120
Transfers		117
Total disbursements and transfers	\$	<u>1,539</u>
Decrease in cash basis net assets	\$	(498)
Cash basis net assets beginning of year		<u>1,985</u>
Cash basis net assets end of year	\$	<u>1,487</u>

Total business type activities receipts for the fiscal year were \$1.041 million compared to \$983 thousand last year. This significant increase was due primarily to charges for water, sewer, and solid waste. The cash balance decreased by approximately \$498,000 from the prior year because \$234,000 of revenue bonds were paid off during the year. Total disbursements and transfers for the fiscal year increased by 81.1% to a total of \$1.539 million due to a \$499,000 sewer project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$2,052,117, a decrease of more than \$264,000 below last year's total of \$2,316,662. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Tax Increment Financing Fund was established in a previous fiscal year to account for a major urban renewal project within the City's business district. At the end of the fiscal year,

the cash balance was \$266,950, a decrease of \$188,435 from the previous year. The decrease was the result of net transfers out of the fund amounting to \$534,613.

- The Local Option Sales Tax Fund was established to provide for property tax relief and for street improvements. The cash balance decreased by \$23,977 to \$214,211 during the fiscal year. Revenues in Local Option Sales Tax decreased by \$60,000.
- The Debt Service Fund cash balance decreased by \$29,322 to \$207,205 during the fiscal year. The City chose to spend some excess cash balance and refinance to obtain lower interest rates. Bond principal and interest payments increased by \$996,121 in fiscal 2004.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$233,049 to \$811,647, due primarily to net transfers out for the 2003 sewer project.
- The Sewer Fund cash balance decreased by \$214,510 to \$532,042, due primarily to a 2003 sewer capital project.
- The Solid Waste Fund cash balance decreased by \$50,579 to \$143,054 due primarily to transfers to the General Fund of \$71,929.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 17, 2004 and resulted in an increase in operating disbursements of \$2,539,406 related primarily to early retirement of bonds and new capital projects within the city.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$3,690,000 in bonds and other long-term debt, compared to approximately \$4,185,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation bonds	\$ 790	\$ 1,625
General obligation notes	1,040	555
Revenue bonds	1,860	2,005
Total	\$ 3,690	\$ 4,185

Debt decreased as a result of scheduled payments made during the fiscal year and the City refinanced some previously issued debt.

The City continues to carry a general obligation bond rating of A33 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,830,000 is significantly below its constitutional debt limit of \$6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of these factors is state assistance. The City expects a loss of municipal assistance and bank franchise tax payments from the State of Iowa. The City also expects a decrease in tax

increment financing revenues and other city taxes. This will mean an estimated \$344,171 decrease in the overall cash balances at the end of June 2005.

Property tax asking for fiscal year 2005 is \$1,170 more than fiscal year 2004, which is a .1% increase from the previous year, but the tax dollars will be allocated more for employee benefits and emergency management and less for debt service. The Tax Increment Finance District continues to show an increase in property valuations and produces revenue for a variety of improvements and economic development opportunities. Water and Sewer rates were adjusted to reflect CPI-U increase of 1.9%.

Projected revenues and expenditures are less for fiscal year 2005 than fiscal year 2004, due in large part to Capital Projects and General Obligation Debt re-financing done in fiscal year 2004. The Budget for fiscal year 2005 reflects completion of the Airport Re-surfacing Project, 2003 Sanitary Sewer Improvement Project and the 2004 Crack & Seal Street Project. Installation of water & sewer mains in the East-end annexation corridor will be underway in fiscal year 2005. The City's share of the project costs will be financed with Water, Sewer, and Local Option funds on hand.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

			Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 422,064	\$ 30,653	\$ 7,954	\$ -
Public works	458,405	2,656	329,213	-
Culture and recreation	380,765	62,979	42,958	-
Community and economic development	452,292	7,690	-	-
General government	190,628	116,365	-	-
Debt service	1,447,522	68,836	-	-
Capital projects	404,607	-	-	-
Total governmental activities	\$ 3,756,283	\$ 289,179	\$ 380,125	\$ -
Business type activities:				
Water	\$ 345,880	\$ 346,995	\$ 7,360	\$ -
Sewer	955,888	527,814	11,010	-
Solid waste	120,436	138,630	3,156	-
Total business type activities	\$ 1,422,204	\$ 1,013,439	\$ 21,526	\$ -
Total	\$ 5,178,487	\$ 1,302,618	\$ 401,651	\$ -
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond proceeds (net of \$3,166 in fees and interest)				
Miscellaneous				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				

Cash Basis Net Assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
--	--	--

Governmental Activities	Business Type Activities	Total
----------------------------	-----------------------------	-------

\$ (383,457)	\$ -	\$ (383,457)
(126,536)	-	(126,536)
(274,828)	-	(274,828)
(444,602)	-	(444,602)
(74,263)	-	(74,263)
(1,378,686)	-	(1,378,686)
(404,607)	-	(404,607)
<u>\$ (3,086,979)</u>	<u>\$ -</u>	<u>\$ (3,086,979)</u>

\$ -	\$ 8,475	\$ 8,475
-	(417,064)	(417,064)
-	21,350	21,350
<u>\$ -</u>	<u>\$ (387,239)</u>	<u>\$ (387,239)</u>
<u>\$ (3,086,979)</u>	<u>\$ (387,239)</u>	<u>\$ (3,474,218)</u>

\$ 763,315	\$ -	\$ 763,315
372,459	-	372,459
193,485	-	193,485
208,443	-	208,443
26,289	-	26,289
34,895	6,296	41,191
981,834	-	981,834
124,519	-	124,519
-	-	-
117,195	(117,195)	-
<u>\$ 2,822,434</u>	<u>\$ (110,899)</u>	<u>\$ 2,711,535</u>
\$ (264,545)	\$ (498,138)	\$ (762,683)
2,316,662	1,984,881	4,301,543
<u>\$ 2,052,117</u>	<u>\$ 1,486,743</u>	<u>\$ 3,538,860</u>

\$ 207,205	\$ 652,971	\$ 860,176
5,130	-	5,130
1,839,782	833,772	2,673,554
<u>\$ 2,052,117</u>	<u>\$ 1,486,743</u>	<u>\$ 3,538,860</u>

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

		Special Revenue	
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 560,361	\$ -	\$ -
Tax increment financing collections	-	-	372,459
Other city tax	26,512	-	-
Licenses and permits	7,100	-	-
Use of money and property	13,705	-	8,421
Intergovernmental	154,845	287,425	-
Charges for service	53,092	-	-
Special assessments	-	-	-
Miscellaneous	146,551	-	7,254
Total receipts	\$ 962,166	\$ 287,425	\$ 388,134
Disbursements:			
Operating:			
Public safety	\$ 410,579	\$ -	\$ -
Public works	250,161	208,244	-
Culture and recreation	380,765	-	-
Community and economic development	399,811	-	41,956
General government	190,628	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 1,631,944	\$ 208,244	\$ 41,956
Excess (deficiency) of receipts over (under) disbursements	\$ (669,778)	\$ 79,181	\$ 346,178
Other financing sources (uses):			
Bond proceeds (net of \$3,166 in fees and interest)	\$ -	\$ -	\$ -
Operating transfers in	808,275	-	-
Operating transfers out	(11,019)	(74,878)	(534,613)
Total other financing sources (uses)	\$ 797,256	\$ (74,878)	\$ (534,613)
Net change in cash balances	\$ 127,478	\$ 4,303	\$ (188,435)
Cash balances beginning of year	655,359	263,865	455,385
Cash balances end of year	\$ 782,837	\$ 268,168	\$ 266,950
Cash Basis Fund Balances			
Restricted	\$ -	\$ -	\$ -
Reserved:			
Debt service	-	-	-
Unreserved:			
General fund	782,837	-	-
Special revenue funds	-	268,168	266,950
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 782,837	\$ 268,168	\$ 266,950

See notes to financial statements.

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total
\$ 193,485	\$ 175,539	\$ 929,385
-	-	372,459
437	208,908	235,857
-	-	7,100
3,478	11,612	37,216
-	7,955	450,225
-	8,372	61,464
53,584	41,789	95,373
15,253	34,572	203,630
\$ 266,237	\$ 488,747	\$ 2,392,709
\$ -	\$ 11,485	\$ 422,064
-	-	458,405
-	-	380,765
-	10,525	452,292
-	-	190,628
1,447,522	-	1,447,522
-	404,607	404,607
\$ 1,447,522	\$ 426,617	\$ 3,756,283
\$ (1,181,285)	\$ 62,130	\$ (1,363,574)
\$ 981,834	\$ -	\$ 981,834
170,129	242,295	1,220,699
-	(482,994)	(1,103,504)
\$ 1,151,963	\$ (240,699)	\$ 1,099,029
\$ (29,322)	\$ (178,569)	\$ (264,545)
236,527	705,526	2,316,662
\$ 207,205	\$ 526,957	\$ 2,052,117
\$ -	\$ 5,130	5,130
207,205	-	207,205
-	-	782,837
-	650,428	1,185,546
-	(212,912)	(212,912)
-	84,311	84,311
\$ 207,205	\$ 526,957	\$ 2,052,117

City of Osage

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Licenses and permits	\$ -	\$ 23,500	\$ -	\$ 23,500
Charges for service	345,998	494,499	138,630	979,127
Miscellaneous	997	1,201	-	2,198
Total operating receipts	\$ 346,995	\$ 519,200	\$ 138,630	\$ 1,004,825
Operating disbursements:				
Business type activities	\$ 345,880	\$ 955,888	\$ 120,436	\$ 1,422,204
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 1,115	\$ (436,688)	\$ 18,194	\$ (417,379)
Non-operating receipts:				
Intergovernmental	\$ -	\$ 5,344	\$ -	\$ 5,344
Interest on investments	13,102	11,564	3,156	27,822
Miscellaneous	-	3,270	-	3,270
Total non-operating receipts	\$ 13,102	\$ 20,178	\$ 3,156	\$ 36,436
Excess (deficiency) of receipts over (under) disbursements	\$ 14,217	\$ (416,510)	\$ 21,350	\$ (380,943)
Other financing sources (uses):				
Operating transfers in	\$ 27,611	\$ 212,000	\$ -	\$ 239,611
Operating transfers out	(274,877)	(10,000)	(71,929)	(356,806)
Total other financings sources (uses)	\$ (247,266)	\$ 202,000	\$ (71,929)	\$ (117,195)
Net change in cash balances	\$ (233,049)	\$ (214,510)	\$ (50,579)	\$ (498,138)
Cash balances beginning of year	1,044,696	746,552	193,633	1,984,881
Cash balances end of year	\$ 811,647	\$ 532,042	\$ 143,054	\$ 1,486,743
Cash Basis Fund Balances				
Reserved for debt service	\$ 308,085	\$ 344,886	\$ -	\$ 652,971
Unreserved	503,562	187,156	143,054	833,772
Total cash basis fund balances	\$ 811,647	\$ 532,042	\$ 143,054	\$ 1,486,743

See notes to financial statements.

City of Osage
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities, except for its component units, the Osage Municipal Utility-Light and Power Division, Osage Municipal Utility-Gas Division and Osage Municipal Utility-Telecom Division. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Osage (the primary government) and exclude all component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. They have not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component units, which issued separate financial statements as noted below, can be obtained from their respective administrative offices.

Component Units

The Osage Municipal Utility-Light and Power Division, Osage Municipal Utility-Gas Division and Osage Municipal Utility-Telecom Division are component units of the City of Osage and are not presented in these primary government financial statements. They are legally separate from the City, but are financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities and operating budgets are subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board, City Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, and Mitchell County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate primary government financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper;

perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. treasury securities	<u>\$ 10,288</u>	<u>13,117</u>

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		1999 Waste Water Treatment Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 120,000	\$ 30,648	\$ 275,000	\$ 35,855	\$ 150,000	\$ 82,625	\$ 545,000	\$ 149,128
2006	90,000	26,628	285,000	28,623	160,000	76,325	535,000	131,576
2007	95,000	23,462	290,000	20,298	165,000	69,525	550,000	113,285
2008	95,000	19,977	80,000	11,057	170,000	62,513	345,000	93,547
2009	100,000	16,300	80,000	6,037	180,000	55,202	360,000	77,539
2010 - 2014	290,000	30,200	30,000	1,185	1,035,000	148,240	1,355,000	179,625
Total	\$ 790,000	\$ 147,215	\$ 1,040,000	\$ 103,055	\$ 1,860,000	\$ 494,430	\$ 3,690,000	\$ 744,700

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue bond sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$47,683, \$46,664 and \$47,614 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$29,496
Compensatory	<u>5,525</u>
Total	<u>\$35,021</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency Levy	\$ 16,483
	Local Option Tax	90,342
	Tax Increment Financing	267,708
	Employee Benefits	159,521
	Parks and Recreation	40,879
	Forfeited Property	1,656
	Road Use Tax	74,878

	Enterprise:	
	Water	74,877
	Solid Waste	71,929
	Sewer	10,000
	Permanent:	
	Hallingby Trust	<u>2</u>
		<u>808,275</u>
Special Revenue:	Special Revenue:	
Commercial Loan Project	Tax Increment Financing	9,451
	Capital Projects	<u>30,000</u>
		<u>39,451</u>
Capital Improvement Revolving	General	<u>6,153</u>
Parks and Recreation	General	<u>500</u>
Library Building and Equipment	General	<u>4,166</u>
Jaws of Life	General	<u>200</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>170,129</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	144,111
	Tax Increment financing	<u>47,714</u>
		<u>191,825</u>
Enterprise:	Special Revenue:	
Water	Tax Increment Financing	<u>27,611</u>
Sewer	Special Revenue:	
	Tax Increment Financing	12,000
	Enterprise:	
	Water	<u>200,000</u>
		<u>212,000</u>
Total		<u>\$1,460,310</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$3,875 during the year ended June 30, 2004.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balances

The Capital Projects Fund, 1998 Main Street Streetscape Project Account had a deficit balance of \$1,037 at June 30, 2004. The deficit balance was a result of project cost incurred prior to availability of funds. The deficit will be eliminated

through special assessments. The Capital Projects Fund, East Main Development Project Account had a deficit balance of \$203,753 at June 30, 2004. The deficit balance was a result of project cost incurred prior to availability of funds. The deficit will be eliminated upon receipt of tax increment financing funds and transfers from the Sewer Rental Operating and Maintenance Fund. The Capital Projects Fund, Airport Renovation Project Account had a deficit balance of \$110,095 at June 30, 2004. The deficit balance was the result of project cost incurred prior to availability of funds. The deficit will be eliminated upon receipt of grants from the Department of Transportation and Local Option Sales Tax revenues. The Capital Projects Fund, 2004 Street Project Account had a deficit balance of \$170,742 at June 30, 2004. The deficit balance was the result of project cost incurred prior to the availability of funds. The deficit will be eliminated through special assessments. The Enterprise Fund, 2003 Sewer Improvement Project Account had a deficit balance of \$221,977 at June 30, 2004. The deficit balance was the result of project cost incurred prior to the availability of funds. The deficit will be eliminated through transfers from the Sewer Rental Operating and Maintenance Fund.

(10) Component Units

Osage Municipal Utility-Light and Power Division, Osage Municipal Utility-Gas Division, and Osage Municipal Utility-Telecom Division are component units of the City of Osage. They are not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 76,190
Billed services (bookkeeping)	18,000
Library utilities	11,607
Miscellaneous	<u>13,829</u>
Total	<u>\$ 119,626</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$ 967,271
Donations in lieu of taxes	70,963
Bond interest	15,253
Cable franchise fee	12,851
Dare Donation	<u>500</u>
Total	<u>\$1,066,838</u>

(11) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2004, the City of Osage paid McNealy's Sanitation

\$117,664. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(12) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$556 per month. The balance owed to the City at June 30, 2004 by OMI was \$148,332. The City provided funds to Fox River Mills, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$2,083 per month. The balance owed to the City at June 30, 2004 by Fox River Mills, Inc. was \$18,750. The City provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest payable at \$1,401 per month. The balance owed to the City at June 30, 2004 by A to Z Drying, Inc. was \$158,599.

The City also provided funds to small businesses along Main Street during fiscal years 2003-2004, under provisions of Chapter 15A of the Code of Iowa in the form of twelve loans with no interest. The balance of the loans at June 30, 2004 is \$93,244, and payments are to be made on January 10th for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 1st of the fifth year.

In addition, the City has also provided funds to a small business outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest. The balance of this loan at June 30, 2004 was \$10,000 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

(13) Retiree Insurance

City employees who retire before the age of 65 continue to be eligible to participate in the City's health insurance plan. However, these retirees are required to reimburse the City 100% of the premiums.

One manager took early retirement and the City agreed to pay for health insurance to age 65½, which is October 2005. The net cost to the City was \$9,000 for the year ended June 30, 2004. The remaining liability of \$12,174 has been computed based on rates in effect on June 30, 2004.

(14) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$1,351,172 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(15) Leases

The City leases property to others under a three year operating lease requiring fixed monthly payments of \$400 beginning July 1, 2000. The lease is renewable for up to 6 three-year contracts. At June 30, 2003, the lease had been automatically renewed for another 3 years at the rate of \$420 per month.

Year ending June 30, 2004:

2005	\$ 5,040
2006	<u>5,040</u>
Total	<u>\$10,080</u>

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC). A one-time payment of \$20,000 was made to lease the space from July 1, 2000 to June 30, 2005. NIACC will have the option to renew this lease for an additional five (5) year period prior to the end of the lease.

The City sold property to Cresco Union Savings Bank so the bank could build a new office at the site. Until construction begins, the City has entered into a lease of that property for total payments of \$1. Also, the City entered into a lease of property from Mayer's Digging Company. The City pays \$1 per year for the property until March 31, 2005.

(16) Construction Commitments

As of June 30, 2004, the City, including had the following commitments with respect to the following projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Cemetery mowing contract	\$ 17,250	December 31, 2004
Sanitary sewer project	\$ 39,931	August 9, 2004
Airport project	\$ 154,170	November 1, 2004
Street project	\$ 31,839	July 6, 2004

(17) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare has paid the June 9, 2004 principal and interest payment.

(18) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new primary government financial statements for reporting the City’s financial activities. The primary government financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Osage
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 929,385	\$ -	\$ -
Tax increment financing collections	372,459	-	-
Other city tax	235,857	-	-
Licenses and permits	7,100	23,500	-
Use of money and property	37,216	27,822	2
Intergovernmental	450,225	5,344	-
Charges for service	61,464	979,127	-
Special assessments	95,373	-	-
Miscellaneous	203,630	5,468	4,220
Total receipts	<u>\$ 2,392,709</u>	<u>\$ 1,041,261</u>	<u>\$ 4,222</u>
Disbursements:			
Public safety	\$ 422,064	\$ -	\$ -
Public works	458,405	-	-
Culture and recreation	380,765	-	-
Community and economic development	452,292	-	-
General government	190,628	-	-
Debt service	1,447,522	-	-
Capital projects	404,607	-	-
Business type activities	-	1,422,204	-
Total disbursements	<u>\$ 3,756,283</u>	<u>\$ 1,422,204</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (1,363,574)	\$ (380,943)	\$ 4,222
Other financing sources, net	<u>1,099,029</u>	<u>(117,195)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (264,545)	\$ (498,138)	\$ 4,222
Balances beginning of year	<u>2,316,662</u>	<u>1,984,881</u>	<u>80,091</u>
Balances end of year	<u>\$ 2,052,117</u>	<u>\$ 1,486,743</u>	<u>\$ 84,313</u>

See accompanying independent auditors' report.

		Budgeted Amounts		Final to
	Net	Original	Final	Net Variance
\$	929,385	\$ 955,500	\$ 925,650	\$ 3,735
	372,459	310,721	371,300	1,159
	235,857	203,350	238,322	(2,465)
	30,600	3,195	4,300	26,300
	65,036	148,847	170,326	(105,290)
	455,569	381,325	539,427	(83,858)
	1,040,591	978,238	989,038	51,553
	95,373	47,098	81,008	14,365
	204,878	156,297	198,061	6,817
\$	3,429,748	\$ 3,184,571	\$ 3,517,432	\$ (87,684)
\$	422,064	\$ 401,840	\$ 445,506	\$ 23,442
	458,405	428,008	517,848	59,443
	380,765	407,395	409,395	28,630
	452,292	91,550	488,600	36,308
	190,628	199,385	204,105	13,477
	1,447,522	472,315	1,447,823	301
	404,607	70,000	521,000	116,393
	1,422,204	950,740	1,526,362	104,158
\$	5,178,487	\$ 3,021,233	\$ 5,560,639	\$ 382,152
\$	(1,748,739)	\$ 163,338	\$ (2,043,207)	\$ 294,468
	981,834	-	981,834	-
\$	(766,905)	\$ 163,338	\$ (1,061,373)	\$ 294,468
	4,221,452	3,882,743	4,221,456	(4)
\$	3,454,547	\$ 4,046,081	\$ 3,160,083	\$ 294,464

City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,539,406. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special				
	Local Option Sales Tax	Forfeited Property	Employee Benefits	Emergency Levy	Jaws of Life
Receipts:					
Property tax	\$ -	\$ -	\$ 159,100	\$ 16,439	\$ -
Other city tax	208,443	-	421	44	-
Use of money and property	2,033	76	-	-	87
Intergovernmental	-	7,955	-	-	-
Charges for service	-	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	3,862	-	-	200
Total receipts	\$ 210,476	\$ 11,893	\$ 159,521	\$ 16,483	\$ 287
Disbursements:					
Operating:					
Public safety	\$ -	\$ 8,473	\$ -	\$ -	\$ 567
Community and economic development	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	\$ -	\$ 8,473	\$ -	\$ -	\$ 567
Excess (deficiency) of receipts over (under) disbursements	\$ 210,476	\$ 3,420	\$ 159,521	\$ 16,483	\$ (280)
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ -	\$ 200
Operating transfers out	(234,453)	(1,656)	(159,521)	(16,483)	-
Total other financing sources (uses)	\$ (234,453)	\$ (1,656)	\$ (159,521)	\$ (16,483)	\$ 200
Net change in cash balances	\$ (23,977)	\$ 1,764	\$ -	\$ -	\$ (80)
Cash balances beginning of year	238,188	3,366	-	-	7,361
Cash balances end of year	\$ 214,211	\$ 5,130	\$ -	\$ -	\$ 7,281
Cash Basis Fund Balances					
Restricted	\$ -	\$ 5,130	\$ -	\$ -	\$ -
Unreserved:					
Special revenue funds	214,211	-	-	-	7,281
Capital project fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ 214,211	\$ -	\$ -	\$ -	\$ 7,281

See accompanying independent auditors' report.

Schedule 1

Revenue					Capital Projects	Permanent		Total
Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Capital Improvement Revolving	DARE	Airport and Street Related	Cemetery Perpetual Care	Ingeborg Hallingby Memeorial	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 175,539
-	-	-	-	-	-	-	-	208,908
426	-	634	5,737	62	2,555	-	2	11,612
-	-	-	-	-	-	-	-	7,955
8,372	-	-	-	-	-	-	-	8,372
-	-	-	-	-	41,789	-	-	41,789
22,085	-	-	-	4,205	-	4,220	-	34,572
\$ 30,883	\$ -	\$ 634	\$ 5,737	\$ 4,267	\$ 44,344	\$ 4,220	\$ 2	\$ 488,747
\$ -	\$ -	\$ -	\$ -	\$ 2,445	\$ -	\$ -	\$ -	\$ 11,485
-	10,525	-	-	-	-	-	-	10,525
-	-	-	-	-	404,607	-	-	404,607
\$ -	\$ 10,525	\$ -	\$ -	\$ 2,445	\$ 404,607	\$ -	\$ -	\$ 426,617
\$ 30,883	\$ (10,525)	\$ 634	\$ 5,737	\$ 1,822	\$ (360,263)	\$ 4,220	\$ 2	\$ 62,130
\$ 500	\$ 39,451	\$ 4,166	\$ 6,153	\$ -	\$ 191,825	\$ -	\$ -	\$ 242,295
(40,879)	-	-	-	-	(30,000)	-	(2)	(482,994)
\$ (40,379)	\$ 39,451	\$ 4,166	\$ 6,153	\$ -	\$ 161,825	\$ -	\$ (2)	\$ (240,699)
\$ (9,496)	\$ 28,926	\$ 4,800	\$ 11,890	\$ 1,822	\$ (198,438)	\$ 4,220	\$ -	\$ (178,569)
45,455	-	49,316	291,530	4,693	(14,474)	79,791	300	705,526
\$ 35,959	\$ 28,926	\$ 54,116	\$ 303,420	\$ 6,515	\$ (212,912)	\$ 84,011	\$ 300	\$ 526,957
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	5,130
35,959	28,926	54,116	303,420	6,515	-	-	-	650,428
-	-	-	-	-	(212,912)	-	-	(212,912)
-	-	-	-	-	-	84,011	300	84,311
\$ 35,959	\$ 28,926	\$ 54,116	\$ 303,420	\$ 6,515	\$ (212,912)	\$ 84,011	\$ 300	\$ 526,957

City of Osage
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
1995 Street and Storm Sewer	08/21/95	4.00-5.00%	\$ 1,610,000
1999 Street Improvement	06/01/99	3.70-4.45%	605,000
2002 Street Improvement and Telecom	07/01/02	2.35-4.40%	630,000
Total			
General obligation notes:			
Fox River Mills	04/15/93	6.950%	\$ 300,000
Pool Improvement	05/01/94	4.625%	300,000
2003 Refunding Capital	11/05/03	1.50%	845,000
2003 G.O. Capital Loan	12/09/03	3.95%	140,000
Osage Manufacturing	12/01/96	6.625-7.10%	475,000
Total			
Revenue bonds:			
1999 Waste Water Treatment	06/01/99	3.70-4.70%	\$ 2,480,000

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 725,000	\$ -	\$ 725,000	\$ -	\$ 39,485	\$ -
270,000	-	90,000	180,000	11,190	-
630,000	-	20,000	610,000	11,764	-
\$ 1,625,000	\$ -	\$ 835,000	\$ 790,000	\$ 62,439	\$ -
\$ 150,000	\$ -	\$ 150,000	\$ -	\$ 7,287	\$ -
100,000	-	100,000	-	5,203	-
-	845,000	200,000	645,000	-	-
-	140,000	10,000	130,000	2,335	-
305,000	-	40,000	265,000	21,223	-
\$ 555,000	\$ 985,000	\$ 500,000	\$ 1,040,000	\$ 36,048	\$ -
\$ 2,005,000	\$ -	\$ 145,000	\$ 1,860,000	\$ 88,570	\$ -

City of Osage

Bond and Note Maturities

June 30, 2004

General Obligation Bonds						
Year Ending June 30,	1999 Street Improvement Issued June 1, 1999		2002 Street Improvement and Telecom Issued July 1, 2002			
	Interest Rates	Amount	Interest Rates	Amount	Total	
2005	4.05%	\$ 60,000	2.65%	\$ 60,000	\$ 120,000	
2006	4.15%	30,000	3.20%	60,000	90,000	
2007	4.25%	30,000	3.40%	65,000	95,000	
2008	4.35%	30,000	3.65%	65,000	95,000	
2009	4.45	30,000	3.85%	70,000	100,000	
2010			4.05%	70,000	70,000	
2011			4.20%	80,000	80,000	
2012			4.30%	85,000	85,000	
2013			4.40%	55,000	55,000	
Total		<u>\$ 180,000</u>		<u>\$ 610,000</u>	<u>\$ 790,000</u>	

General Obligation Notes							
Year Ending June 30,	2003 Refunding Issued Nov5, 2003		2003 G.O. Note Issued Dec 9, 2003		Osage Manufacturing Issued Dec 1, 1996		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	1.50%	\$ 210,000	3.95%	\$ 20,000	6.850%	\$ 45,000	\$ 275,000
2006	1.50%	215,000	3.95%	20,000	6.900%	50,000	285,000
2007	1.50%	220,000	3.95%	20,000	7.000%	50,000	290,000
2008		-	3.95%	20,000	7.050%	60,000	80,000
2009		-	3.95%	20,000	7.100%	60,000	80,000
2010		-	3.95%	20,000		-	20,000
2011		-		10,000		-	10,000
2012		-		-		-	-
2013		-		-		-	-
2014		-		-		-	-
Total		<u>\$ 645,000</u>		<u>\$ 130,000</u>		<u>\$ 265,000</u>	<u>\$ 1,040,000</u>

Revenue Bonds		
Year Ending June 30,	Waste Water Treatment Issued June 1, 1999	
	Interest Rates	Amount
2005	4.20%	\$ 150,000
2006	4.25%	160,000
2007	4.25%	165,000
2008	4.30%	170,000
2009	4.35%	180,000
2010	4.40%	190,000
2011	4.50%	195,000
2012	4.60%	205,000
2013	4.65%	215,000
2014	4.70%	230,000
Total		<u>\$ 1,860,000</u>

See accompanying independent auditors' report.

City of Osage

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Fiscal Year

		<u>2004</u>
Receipts:		
Property tax	\$	929,385
Tax increment financing collections		372,459
Other city tax		235,857
Licenses and permits		7,100
Use of money and property		37,216
Intergovernmental		450,225
Charges for service		61,464
Special assessments		95,373
Miscellaneous		<u>203,630</u>
Total	\$	<u>2,392,709</u>
Disbursements:		
Operating:		
Public safety	\$	422,064
Public works		458,405
Culture and recreation		380,765
Community and economic development		452,292
General government		190,628
Debt service		1,447,522
Capital projects		<u>404,607</u>
Total	\$	<u>3,756,283</u>

See accompanying independent auditors' report.

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the primary government financial statements of the City of Osage, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 21, 2004. Our report expressed an unqualified opinion on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Osage's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of primary government financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items III-B-04, III-E-04 and III-J-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Osage's ability to record, process, summarize and report financial data consistent with the assertions of management in the primary government financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
July 21, 2004

City of Osage

Schedule of Findings

Year ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the primary government financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

Schedule of Findings

Year ended June 30, 2004

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Osage

Schedule of Findings

Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

- III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- III-C-04 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steven Cooper, Mayor, owner of Cooper Chrysler	Auto Repairs	\$ 1,901
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating.	Furnace at city shop, small items	1,721
Cathy Penney, City Clerk, mother of Scott Penney, contractor.	Lawn work	253

In accordance with Chapter 362.5(10) of the Code of Iowa, the first two amounts appear to represent conflicts of interest. The amounts are over \$1,500 and bids were not taken. The third transaction does not appear to represent a conflict of interest since the amount was less than \$1,500.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

City of Osage

Schedule of Findings

Year ended June 30, 2004

III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. However, we noted several transactions in which accompanying warrants were not signed.

Recommendation – Warrants should be stamped and signed before disbursement is made.

Response – The city will stamp and sign warrants before disbursement is made.

Conclusion – Response accepted.

III-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.

III-I-04 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

III-J-04 Financial Condition – The Capital Projects Funds, 1998 Main Street Streetscape Project Account, East Main Development Project Account, Airport Renovation Project Account, 2004 Street Project Account, and 2003 Sewer Improvement Project Account had deficit balances at June 30, 2004 of \$1,037, \$203,753, \$110,186, \$170,742, and \$221,977, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

City of Osage

Required Supplementary Information

Other Supplementary Information

Primary Government Basic Financial Statements